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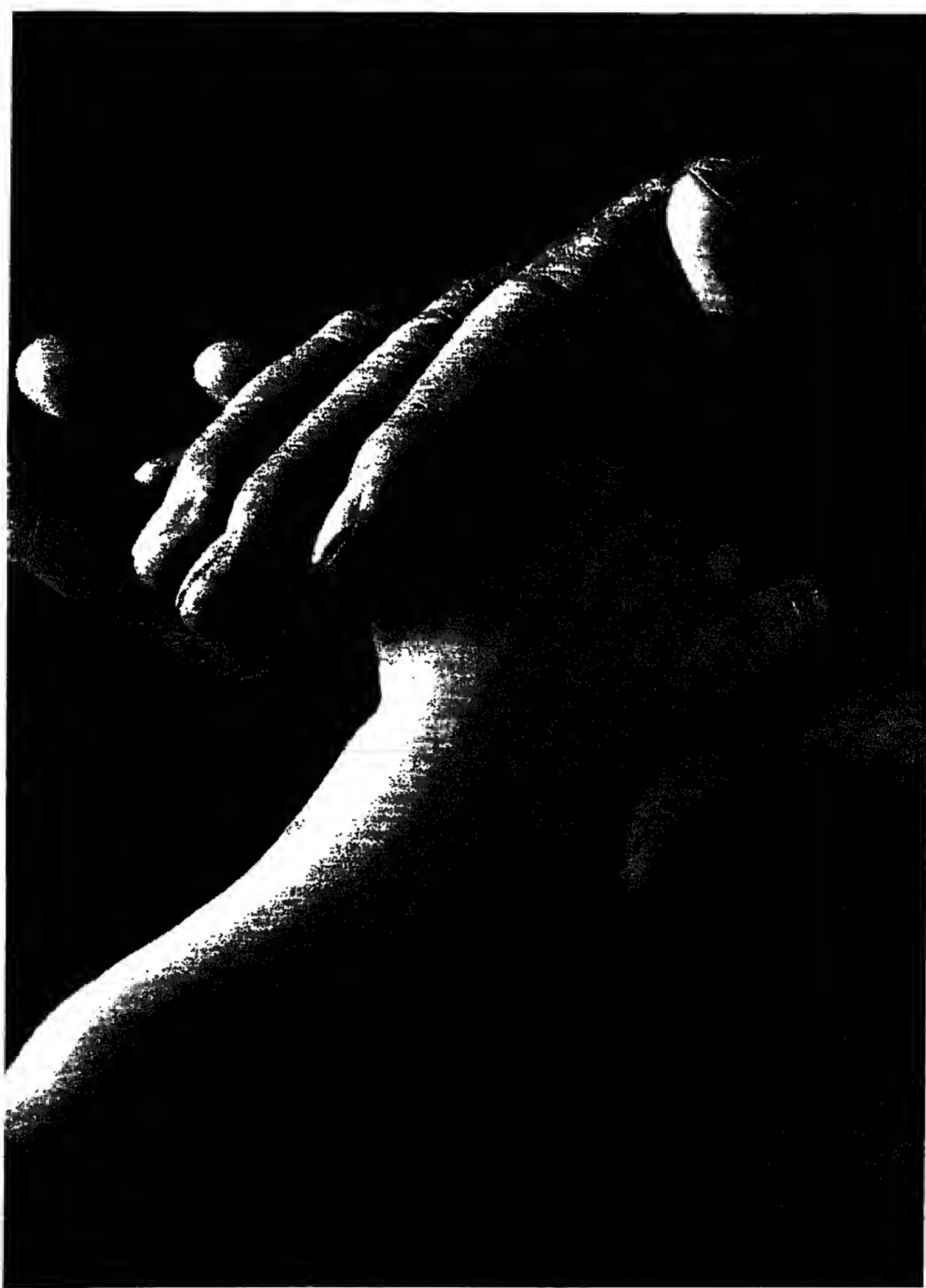
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FINANCIAL TIMES SURVEY

SOUTH AFRICA

Monday July 18 1994



A powerful spirit of unity

South Africa's politicians must still show they can deliver their promises, but with a charismatic leader at the helm their luck may hold, say Patti Waldmeir and Michael Holman

It has been one of the most extraordinary political transformations of the twentieth century: South Africans have defied the logic of their past, and broken all the rules of social theory, to forge a powerful spirit of unity from a shattered nation.

Nearly three months after the national catharsis which liberated black and white alike - the April 27 all-race elections - they remain dazed, proud, happy and surprised. They can hardly believe their luck.

That new-found confidence is fragile, and news of the resignation of Mr Derek Keys, finance minister, the man who taught South Africa to believe in itself - has deflated the national mood. But even the departure of Mr Keys (he will step down from October) could not seriously undermine the politics of common purpose which has united South Africa. Having wrought a miracle, against all the odds, South Africans are eager now to go on to even greater feats of political magic.

In a land of profound faith, and belief in one or many deities, South Africans very often adopt the vocabulary of the miraculous to explain what has happened. A right-wing Afrikaner says President Nelson Mandela, who has driven the process of unification with such wisdom and vision, is "a gift from God." He suggests that Mr Mandela is like the crooked stick in the Bible: God can do much good with him, though he be flawed.

Even the least sentimental political analysts speak of luck and magic. Columnist Simoo Barber, writing in the Johannesburg newspaper Business Day, says South Africans "passed through the looking glass" at the moment of Mr Mandela's inauguration. "In that instant, their country became the mirror image of its former self. No longer a pariah but, in a world of Bosnians, Somalis and Rwandas, a beacon."

Mr Cyril Ramaphosa, secretary-general of the African National Congress, puts it even more simply: "The gods smiled on the ANC" - not because the ANC won power, but precisely because it did not win too much power too soon.

"The four years we spent in negotiations helped to let a lot of ideas mature in our own heads and hearts, to accept sitting down with De Klerk in a government of national unity..." he explains. "We were a little bit giddy... and I think we could have made mistakes. So, with hindsight, we played out a grand strategy but maybe some aspects of it we stumbled upon and found our way through the dark."

What they stumbled towards, during those four years of endless talk and brutal violence, was the shared vision of a new South Africa which emerged so powerfully in the wake of the remarkably peaceful elections. Hardly anyone dissents from that vision: certainly not South Africa's former rulers, the National Party, who so far seem to define their interests identically with those of the ANC. And not even the normally fractious Inkatha Freedom Party, full participant in the coalition government of national unity, or the white right Freedom Front, which has remained outside the cabinet but taken seats in all other constitutional structures.

That vision has taken shape in the Reconstruction and Development Programme, a grand blueprint to transform South African society, to re-invent government and re-define patterns of ownership, influence and power. Says one businessman who fully supports the programme: "The RDP has replaced apartheid as a grand social project. People talk about it as a kind of holy thing, beyond debate - at least in its goals."

Those goals go well beyond mere socio-economic development: building 1m new houses, electrifying 2.5m homes, redistributing 30 per cent of the land, bringing clean water, education and health to South Africa's poor. The broader goal is to re-invent South Africa in its entirety: a brave new non-racial world must be created where the main institutions of society - the civil service, the security forces, the business community, the universities, the media, the stock exchange, the banks - are no longer dominated by whites.

The culture of government must change:

the feudal arrogance of the National Party past, which bred obsequiousness in civil servants and sapped the general population's will to resist, must not be repeated. Mr Bobby Godsell, political analyst and industrial relations director for the giant Anglo American Corporation, says South Africa's new rulers must "behave differently" and break the cycle of the past. A senior ANC minister argues that government must keep its integrity - even more than keeping its promises.

The transformation has barely begun. Mr Ramaphosa says: "Though we have achieved power at a formal level, we still do not have our hands on the levers of power throughout government structures." Ministers speak of paralysis in government as politicians fight to master the civil service machine and, more importantly, as they tussle with newly-elected provincial premiers who have shown a

remarkable degree of independence.

Ultimately, the success of the RDP will depend on the creation of a more efficient and responsive civil service, and provincial governments which can effectively deliver development. But ministers point out that not only has the RDP given South Africans a shared vision; it has provoked a shared sense of risk, across the political spectrum within the multi-party government of national unity, and beyond.

"All of us have to deliver the goods," says Mr Jay Naidoo, minister charged with overseeing the RDP. "It's not going to help the National Party if Hanius Kriel [NP premier] fails to deliver the goods in the Western Cape, or if Frank Mdladloshe [Inkatha premier] fails to deliver the goods in KwaZulu Natal. If the RDP does not succeed, the NP is as much responsible as the ANC," he concludes.

Continued on Page 3



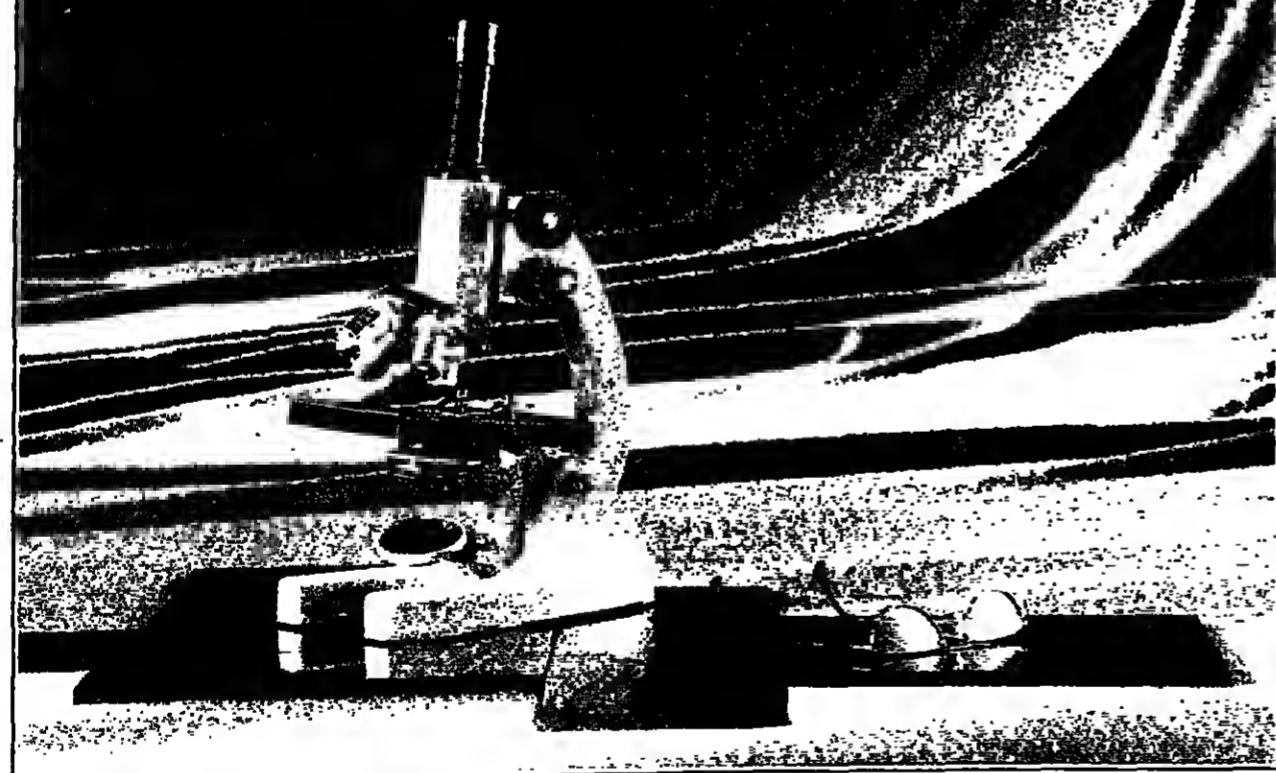
President Nelson Mandela and Deputy President F.W. de Klerk after the inauguration ceremony at the Union Buildings in Pretoria on May 10

IN THIS SURVEY

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SOUTH AFRICA 2

Question: Why should Financial Times readers invest in South Africa?

Answer: South Africa is potentially a rich country... with developed infrastructure, modern ports, a sophisticated banking system, a telecommunications system. It can be a powerhouse for the southern African region.

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Why invest in South and southern Africa rather than East Asia?

We have taken precautions to ensure that investors have a maximum return for their investments. Nationalisation was a fundamental part of ANC policy. But in order to attract investments it was clear to us that we had to make a very significant shift; if we did not, we would not get investments. There will be no expropriation of foreign investments. Investors will be free to repatriate dividends and if an investor sells his business, he will be able to export those proceeds. We believe in keeping our tax rate low so as to attract foreign investment. That's a decided advantage...

What are the prospects for a social contract in South Africa? I don't know if I would call it a social contract. But there is an agreement between labour, capital and the government. The harmony that exists between ourselves in the ANC and big business is striking. The support we have had from busi-

Three men will shape the destiny of South Africa: President Nelson Mandela and Deputy Presidents Thabo Mbeki and F.W. de Klerk. Below, they talk to Patti Waldmeir and Michael Holman about national unity, economic development and the many difficult challenges which lie ahead

A powerhouse for the region



President Nelson Mandela



Deputy President F.W. de Klerk



Deputy President Thabo Mbeki

ness, had it not been for that support... we probably would not have had such a landslide victory. Are you surprised at the degree of powers claimed by provincial premiers?

Our own people are demanding some form of federalism. Whereas it was the Inkatha Freedom Party of Chief Buthelesi, the National Party of Mr de Klerk that was demanding it. Now it is our own people demanding independence from the central government. We are happy about that. All that we're concerned about is that there should be free movement of goods, services, capital and labour.

Why did you decide on a government of national unity, and will it continue after the five years set out in the constitution?

There is a long history here, starting from our experiences in prison. The moment we arrived at Robben Island, there was debate amongst Afrikaner warders, some saying let's treat these people harshly so they must respect white supremacy, others saying... we must treat them in such a way that when they win it should not be a government of retribution. We adopted a policy of talking to the warders and persuading them to

treat us as human beings.

And that is a lesson that one of our strongest weapons is dialogue. It has been a very powerful weapon. Our people accepted this, because throughout the history of the ANC, the idea of nation-building, of a non-racial society, has been uppermost. And we have now implemented that through a government of national unity. So far as continuing this government after five years, we have an open mind; we're very flexible. Could you articulate your vision of the RDP?

Well, it wants to address the basic needs of the masses of the people: to ensure that our people lead a better life; to ensure that everybody has a job; that everybody lives in a decent house; that there is free, quality education; that there is electricity in every home; clean, healthy, running water; that there are sporting and recreation centres; that there are paved roads in our areas.

But the RDP also addresses the question of nation-building. [Through the RDP] we are appealing to whites. Remain in our coun-

try, don't take away your skills. The RDP is intended not only to address the basic needs of the majority, it is actually to set the minority free, free from fear of retribution. It is a programme to transform the whole South African society.

A Truth Commission in a country where the previous government still holds power is unusual. Do you worry such a commission might, as deputy president De Klerk has warned, prove divisive? The ANC has twice the combined strength of the IFP and the

National Party, so if we wanted to we could just run the government, but we are not doing that. We are committed to making the government of national unity something which has got a substantive content. As far as the Truth Commission is concerned, we have made it clear that we have no intention of retribution. We are doing this in order to heal the wounds of the past. People must know what crimes were committed and that we have forgiven those crimes.

Is the spirit of national unity strong enough to survive these pressures?

Recently I went to the most powerful congregation of the Dutch Reformed Church in Pretoria. There was a time where if you went to the DRC, you would need a whole police force to protect you from being attacked. They needed a police force to protect me from the love of the people. You would think I was in Soweto. Everybody wanted to touch me. And the whole idea of national unity has attracted a positive response from all segments of the population.

Are you in danger of not satisfying your [black] constituency at the end of your first year? This is a process. The people are

justified in having these exaggerated expectations when they see whites enjoying rights and opportunities that are denied them. From inside the country, forces are being mobilised to enable us to start this programme.

I can assure you, as we said during the elections, that we promise no miracles. We want you to understand that it is going to take time for us to mobilise the resources... But what is important is that a few days after a new cabinet was set up, the process of trying to address problems started, and I can tell you that the co-operation in the GNU is impressive.

Don't you underestimate the role of the front-line states in ending apartheid?

That, actually, I don't agree with. The people - men, women and children - inside South Africa who came out into the streets, called strikes; stayaways, who were shot and killed by the racist South African Police; they are the people who kept the fires burning, and eventually brought down tyranny.

When do you think the NP finally realised that it was majority rule or nothing? You can't put a date and say on the particular day they realised; gradually, they came to accept that majority rule was unavoidable. But you must understand that it takes a long time for concepts to be accepted because even now, without in any way being discourteous to the NP, they still think that they are in the majority because they would like us to consult them on everything we do.

But de Klerk is a man who means well and when we point out to him: "Look, don't go too far, we are the majority party," he accepts that.

Accommodating participants

Interview with F.W. de Klerk, deputy president:

Question: How well is the government of national unity working?

Answer: It got off to a good start. All the participants are going out of their way to be accommodating. I have identified a number of issues where... one might experience problems: the question of a truth commission; how should we deal with the past; the question of affirmative action; the whole land issue is going to be a very emotional and sensitive one for years to come.

But the whole question of economic policy has basically been breached: it is clear that economic and financial policies will be based on principles which can ensure economic growth, which will build investor confidence, which will continue to maintain inflation at acceptable levels, so in that I find proof that we can and will

also reach accommodation with regard to other important issues. Has South Africa ended up with a federal constitution, through the back door? I've always said this is essentially a federal constitution. What is happening now is just proof of that.

What is the role of the National Party? One of fully participating in the government, putting aside our differences... I'm not saying that on specific issues it will not become necessary for us to say we have to consider our position on this very important issue as a party, but so far it hasn't been necessary. So the ministers and I would be playing the normal role that you play irrespective of which party forms the government...

But the NP intends also to be an effective opposition. Obviously, one will be inhibited by the fact that one is also participating. It is for this reason that policy

frameworks are important. Because once you have agreed on policy frameworks, the political debate, aimed at the next election, is to say "Our policy is better. We had to make a compromise, yes, but vote for us next time and you'll get a better policy."

Will you still need a government of national unity after the five years entrenched in the constitution? I personally think that five years might be too short. Even if the concept of power sharing were to be weakened in a final constitution, because I don't think it will disappear, I believe it is quite probable that South Africa will move to the situation of so many European countries, where on the basis of proportional representation you will have coalitions because of the election results and because no single party gets more than 50 per cent of the vote.

Interview with Thabo Mbeki, deputy president:

Question: Is there a commitment in society to fundamental change?

Answer: One of the things that happened over the past few years, unplanned I think, was because of the length of time that it took from the first official public negotiations to elections, some consensus was built about some things so everybody fell within the same framework.

Everybody wants to get rid of apartheid and the consequences of apartheid: there are certain things that are so glaringly bad that there is nobody in the country, whether different parties or different strata of society or whatever who are going to differ about certain basic things... but the issue of the transformation of the civil service, for example, is not by any means going to be very easy. There are people who've been in the civil service

for a very long time, they know a particular kind of civil service with a particular manner of operating, and you want to change that. I'm sure there is going to be a very big struggle about that.

I think there's going to be a very big struggle to change patterns of ownership, management control of the direction of the economy. We might all of us appear to be saying the same thing now, a more equitable distribution of wealth and all of that. But in substance how do you get there? Do you believe there should be legislation to ensure that the corporate sector participates in the reconstruction and development programme?

I think you need both moral and political pressure and perhaps in certain instances legislation. It will need to be a mix of measures, it will not be one thing that you do. You might have to pass legislation with regard to some matters, and with

regard to other matters you might introduce an incentive system.

Do you see power-sharing being entrenched in a final constitution?

I think once you have moved some distance with regard to addressing the outstanding glaring inequities of the apartheid system and that's gone and society looks a little better, it's not so divided... this must result in people beginning to focus on what might be ideological, political, philosophical differences among themselves. You might have alternative strategies for growth, for all sorts of things.

The parties which could unite against apartheid and maintain that unity when dealing with the consequences of apartheid, once you have gone beyond a certain threshold people in the same party find that they have different ideas... and you get a new political alignment. I think that is inevitable.



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SOUTH AFRICA 4

Corporatism has been embraced with relief, writes Tony Hawkins

Love-in that may not last

After generations of often bitter confrontational economic management, with government, labour and big business at each other's throats, it is hardly surprising that South Africans should have embraced the corporate state with a mixture of enthusiasm and relief.

Even the sceptics concede that the smooth transition owes much to the forum system where different stakeholders - in the economy, in housing, health and education - sat around the table in an effort to sink their differences and work out compromises.

All three sides of the "golden triangle" - government, business and the unions - are keen to build on such past successes as the National Economic Forum, responsible among other things for securing consensus in the difficult and complex negotiations over last year's General Agreement on Tariffs and Trade submission for the Uruguay round.

All sides were conscious of what was at stake in the decision to lower tariffs radically over the next five years - markets, exports, jobs and industrial peace. But the system worked, setting what many see as a model for the future.

Those with memories of failed experiments in corporatism - the UK in the 1960s and 1970s - have their reservations. The concept is riven with internal contradictions. Take, for example, the contradiction between the ANC's commitment to anti-trust legislation and a more active competition policy, and tax measures in the last two budgets designed to encourage businesses to reinvest. Threats to clip the wings of big organisations conflict with measures encouraging them to reinvest.

A second, more serious, potential weakness is the economic management crunch that is bound to come during the five-year life of the

national unity government. The ANC has a mandate to restructure the economy. In this process one - or both - of the other two sides of the triangle is going to get hurt.

Sooner, rather than later, too, ministerial impatience with government by forum and consensus will develop. The government's commitment to implement - not just announce - important social programmes during its first 100 days in office, is vulnerable to delay as the number of participants proliferates.

Above all, there is a question mark over the ANC's willingness to share power, not just with defeated political opponents but with the unelected representatives of what many on the left see as the old enemy, big business.

For the present the love-in between business and government looks rock solid, but the third side of the triangle seems to be increasingly suspect. Mr Derek Keys, finance minister, agrees that there is little prospect of a compact with labour, but hopes for a tacit, unspoken deal that would link wages with productivity. Employers are less sanguine, noting the tendency for wage settlements to average out at two or three percentage points above the inflation rate.

In early July, negotiators in the mining industry were a full 10 points apart, with employers determined to keep the 1994 wage round in single figures while the unions were demanding 18 per cent.

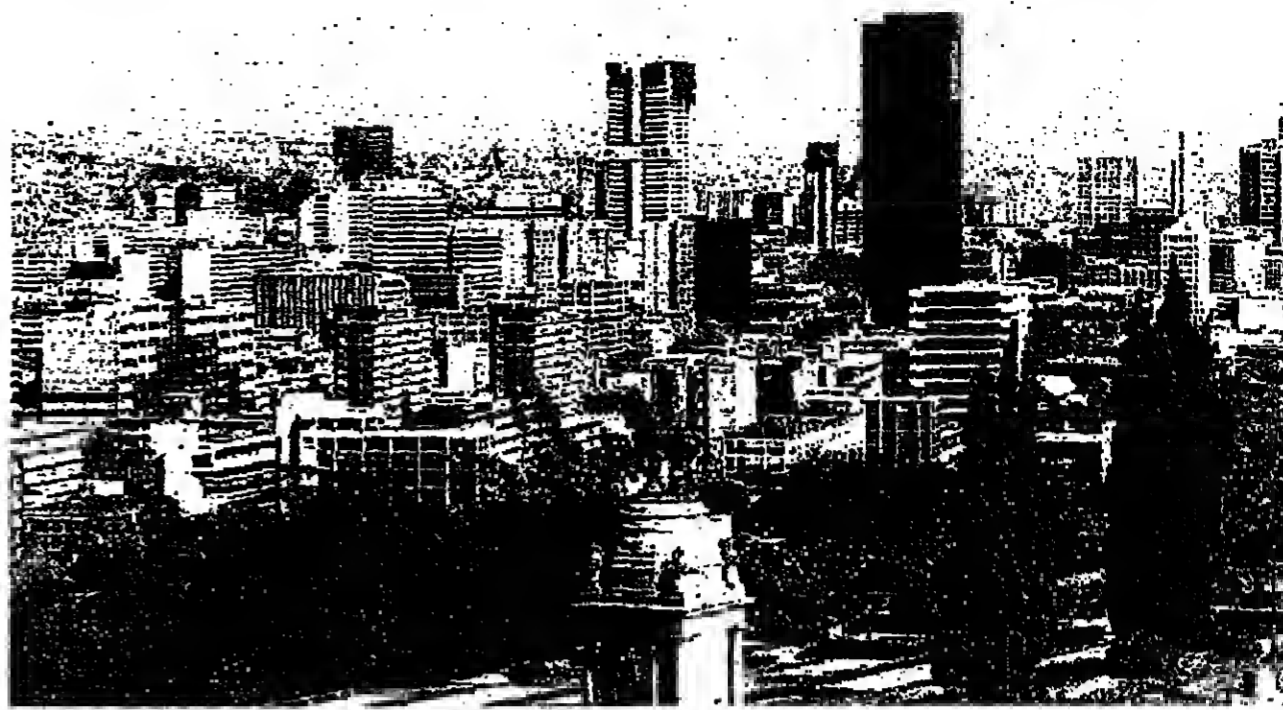
Management worries that

now the top echelon of union leaders has moved off into politics and government, there is a very real danger that - even if wage agreements are reached - the unions will lack the capacity and credibility to sell the deal to their members.

Some 1.2m working days were lost to strike action in the first half of 1994 - the country's worst industrial relations performance for seven years. While this was partly attributable to pre-election disruption, it also reflects wage disputes which, according to industrial consultants, Andrew Levy and Associates, accounted for one third of the stoppages. The danger here must be that labour, which played a crucial role in bringing down apartheid, will push hard for an immediate, substantial, liberation dividend. Ministers and employers believe this will not happen, arguing that labour leaders are more preoccupied with job security than wage levels, but the current trend of above-inflation pay awards will put this thesis to the test.

Government has a similar, if less acute, problem in terms of ensuring that what is agreed at central government level is translated into action by provincial administrations and parastatals. This too, is an inherent weakness of corporatism - the difficulty of ensuring that all the main players stick to their agreements. Some larger employers, for example, accuse their smaller colleagues of conceding unnecessarily high wage claims.

Missing from the golden tri-



Pretoria: there is a question mark over the ANC's willingness to share power, not just with defeated political opponents but also with big business

angle - if central bank independence is to be a reality - is one of the key actors. As many in business voice their impatience over the Reserve Bank's caution on exchange control liberalisation and abolition of the financial rand, while anxieties surface over inflationary wage claims and job generation, the role of the central bank becomes increasingly crucial to the success of corporatism.

In many countries, corporatism has foundered on this issue - the refusal of the monetary authorities to accommodate wage inflation, to lower interest rates to boost output and employment - and the need for tight monetary policy to counter fiscal weakness. In the new South Africa, that too will become a crunch issue.

Profile: The economic team. Two reformed socialists and a conservative banker make up the troika which drives South Africa's economic revolution

Figure of flawless orthodoxy

In the bad old days before the government of national unity, Mr Jay Naidoo had an unfortunate habit of looking like Satan, sounding like Marx and acting like Mephistopheles, writes Patti Waldmeir.

But those days are long gone now, and his image has been transformed. With his well-cut suits and carefully tailored vocabulary, the new-look Mr Naidoo - formerly head of the largest union federation, Cosatu, and now minister charged with implementing the Reconstruction and Development Programme (RDP) - is a figure of flawless economic orthodoxy. The firebrand trade unionist and militant socialist of the past has become a persuasive advocate of fiscal and financial discipline.

With just a hint of American twang in his accent, he might be a missionary from the World Bank, pushing its gospel of structural adjustment - except for one crucial difference, which he highlights forcefully: Mr Naidoo believes he has society on his side.

Mr Naidoo, who turns 40 this year, describes South Africa's own brand of structural adjustment, the RDP, as a "shared partnership between government and civil society", a vision which unites all the parties in the coalition cabinet. But his commitment to the RDP, which is fervent, goes



Jay Naidoo: the former militant socialist has become an advocate of fiscal and financial discipline

well beyond the simple intention to spend money. "Overriding everything in this country is going to be the fact that this is how much money we have, these are the constraints," he says.

He constantly insists that it is not an "add-on" programme. "The RDP is... about how to reorganise government expenditure to meet new priorities. We are turning the ship of state around to those new priorities... but we must do so while ensuring that we maintain stability."

Hard choices lie ahead, he says, and conflict is probably inevitable. "But I spent my whole professional life mediating conflict," Mr Naidoo points out, referring to his role as Cosatu general secretary during 1985 to 1993: the toughest years of union-management antagonism. Those years honed his rhetorical and political skills to the point where he earned the grudging respect of business; they also taught him pragmatism.

Nothing could have prepared him better for the difficult years to come.



Alec Erwin: fiscal moderate with a fervour and passion which few orthodox economists could equal

Discipline 'vital to strategy'

"Alec Erwin was sent by God, Jay Naidoo, I embrace him," Mr Derek Keys, the outgoing finance minister, has been overheard to utter such praises about the two men - ironically, both former socialists - who have been his lieutenants, writes Patti Waldmeir.

Now that troika is breaking up, with Mr Keys ceding his place to Mr Christo Liebenberg, a respected banker. Mr Liebenberg is untested as finance minister, but Mr Erwin and Mr Naidoo, reconstruction and development minister, have already done much to prove their credentials as fiscal moderates.

Indeed, to hear Mr Erwin, deputy minister of finance, defend the need for discipline - with a fervour and passion which few orthodox economists could equal - is to believe that his conversion is genuine.

"You simply cannot meet people's basic needs if you generate rampant inflation. It would be totally counterproductive to our goals if we let inflation rise," he says with earnestness and conviction.

"Our commitment to fiscal discipline isn't just there because it looks good," he told his first press briefing after entering public office. "Fiscal discipline is fundamental to the strategy."

He reiterated the same message less than 24 hours after the announcement that Mr Keys would resign, obviously eager to reassure investors that South Africa's commitment to fiscal discipline would not depart with the minister.

Even so, time will test that commitment sorely. And the loss of Mr Keys - who worked with Mr Erwin and Mr Naidoo for the past two years to develop an agreed economic vision based on discipline - could prove a serious blow.

The new troika will lack the rapport built up by the previous team during tough months of negotiations in the national economic forum, the business-labour-government body which brought corporatism to South Africa. And Mr Liebenberg will wield far less political clout than the wily and shrewd Mr Keys.

But Mr Erwin is clearly keen to make things work. Once a doctrinaire socialist - he comes from Cosatu, the black union federation - he has made his peace with capitalism.

Mr Keys was surely right: Mr Erwin was an inspired choice.

A widely respected banker

The decision by Mr Derek Keys, finance minister, to step down in October for personal reasons caused panic in the financial markets when it was announced this month, but his chosen successor, Mr Christo Liebenberg is likely to prove a capable replacement, writes Mark Szozman.

Mr Liebenberg, who is presently acting as Mr Keys's understudy before the incumbent leaves, fits all the requirements for finance minister. He is a widely respected banker with strong private sector credentials, a sound understanding of the economy, and a tough, conservative attitude to fiscal discipline.

"He's a journeyman executive. He's capable and will work hard at the job," observes one banker. "A very good back-room man," notes another businessman who has worked with him. "He understands the issues, works through them carefully and delivers the goods."

Mr Liebenberg, a career banker, started work in the mail room of a Nedbank branch and slowly worked his way up the ranks. En route, he picked up managerial qualifications from the Institute of Bankers, Dale Carnegie, Insead and Harvard, and built up a solid reputation as a dedicated and hardworking executive.

In 1988 he became Nedbank's



Christo Liebenberg: a sound understanding of the economy and a tough attitude to discipline

managing director and in 1990 he was appointed chief executive of Nedcor, South Africa's fourth-largest banking and financial services group, a post from which he retired in February of this year after a solid stint at the helm. He has no previous government experience and will be expected to bring business acumen rather than political skills to the post.

Although affable and good humoured, Mr Liebenberg is seen as both less charismatic and less cerebral than the ebullient Mr Keys and he will find it more difficult to win people over to his point of view. One probable result of his appointment will be a change in the balance of power in the government's economic policy team.

Whereas Mr Keys was unquestionably the dominant figure in the troika composed of him, Mr Jay Naidoo, and Mr Alec Erwin, the new arrangement will likely be more of a gathering of equals. Mr Liebenberg's lower international profile will also allow the other two to increase their exposure within the global financial community.

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THE MEASURE OF OUR FAITH IN THE NEW SOUTH AFRICA — R15 BILLION

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Points from
the annual statement
by the Chairman,
Julian Ogilvie Thompson.

■ 1994, a momentous and rewarding year for all South Africans, has seen the culmination of a process of profound change that we had long advocated. The country has been fortunate in the outstanding statesmanship of President Mandela and Deputy President De Klerk, in the goodwill of all who suffered under apartheid and in the manifest desire for peace and reconciliation that President Mandela has made a central tenet of his administration. Now all components of the new South Africa must rise to the tremendous challenges that lie ahead. As a member of the business community I am acutely aware of the part we have to play. The mining finance house continues to demonstrate its vigour and adaptability, harnessing under one roof the range of administrative, financial and technical skills and capital-raising capacity required for the major projects necessary to South Africa's development.

■ Our faith in the future of South Africa is signalled by the current R15 billion investment programme of the Group and its associates. The major projects — almost entirely export-driven — each exceed R1 billion: the Namakwa minerals beneficiation project; the Moab extension to the Vaal Reefs gold mine and the new No 4 Shaft at Freddie's gold mine; the Columbus joint venture, which will make South Africa a leader in world markets for stainless steel; and our investment in the Del Monte Royal Group, which draws substantially on South African products for the international branded foods business.

■ South Africa's re-acceptance into the world community has opened up new horizons for the Group, enabling us to expand into areas previously closed to us. In West Africa we are a partner in the development of a most promising gold deposit in Mali and are conducting exploration in neighbouring states, in Central and East Africa, and in Madagascar. In Zambia we have proposed, contingent on a feasibility study, a joint venture with ZCCM to develop the Konkola deep copper orebody. We are taking an interest in industrial ventures in the Far East and

undertaking joint exploration in Vietnam and other countries in the region. We retain our close financial and technical involvement in Minorco's six exciting new mining ventures in South America, which could double the size of Amsa and re-establish the wider group as a major world copper producer.

■ The ability to operate internationally as a developer of major projects with or without overseas partners, is a function of size. Our Zebra high-energy battery project could not have been undertaken without substantial research and development expenditure, spread over many years, and the support and participation of overseas partners — in this case Daimler Benz/AEG. Our extensive resource base was a factor in bringing Daewoo of South Korea, one of the leading industrial groups in Asia, into partnership with us to seek new development opportunities in South Africa.

■ The Corporation's excellent results testify to our financial strength and the benefits of planned geographic and product diversity. Net earnings increased by 23 per cent to R2,984 million and attributable earnings by 20 per cent to R1,681 million, with the total dividend increasing by 14 per cent to R3.95 per share.

■ As our central business purpose is wealth creation — not only for shareholders — the Corporation is investing in significant programmes in the fields of small business promotion, economic empowerment, share ownership, employment equity and education. In the words of our founder, Sir Ernest Oppenheimer, 40 years ago: "Our aims have been, and they still remain, to earn profits, but to earn them in such a way as to make a real and permanent contribution to the well being of the people and the development of Southern Africa".

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SOUTH AFRICA 12

The stock exchange is undergoing important changes, writes Mark Suzman

International investors stay wary

Few people were happier with the outcome of South Africa's elections than the country's stockbroking community. While market players may be used to life on a roller coaster, investing in South African financial markets in the run-up to April's poll at times seemed more akin to bungee jumping. In rapid succession, the market rose, fell, and rose again, almost entirely focusing on political sentiment rather than economic fundamentals.

To make matters worse, the renewed volatility came after an excellent year for the Johannesburg Stock Exchange. In 1993, it seemed that little could go wrong for the market as the overall index increased 50.1 per cent and net foreign purchases reached R2.8bn in the year to February 1994 after years of disinvestment.

Highlighting the return to favour of the South African market in the international arena was the creation of several investment funds targeting South African equities, bringing hundreds of millions of dollars into the market.

But in March and April, responding to fears of civil war, foreigners beat a mass retreat, becoming net sellers once more. The result was soaring gilt yields, a sinking stock market and a plummeting currency. The combustion, which shifted almost daily, was wearing. "It was like being in a ring with Mike Tyson every day," reminisces one not very nostalgic broker.

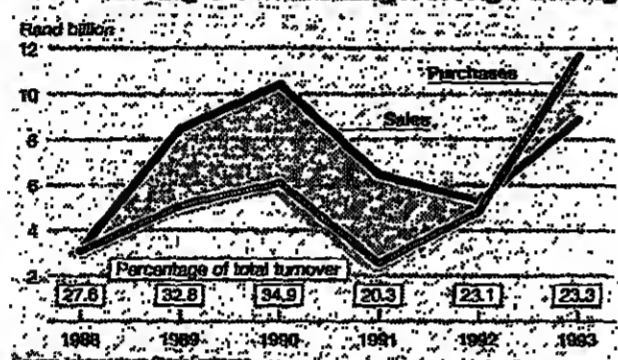
Following the successful and remarkably peaceful elections, however, local investors have returned to the market to preempt the expected flood of new international fund money. After South Africa was included in the International Finance Corporation's global index with a hefty 13 per cent weighting, local brokers are expecting some leading international investors to adjust their emerging market share-weighting accordingly, with the potential windfall for the Johannesburg exchange running into billions.

So far, however, despite the return of fund managers and investment analysts to Johannesburg's biggest hotels, little new money has been forthcoming.



The Johannesburg Stock Exchange: following the elections, local investors have returned to the market

Johannesburg Stock Exchange foreign trading



Source: Johannesburg Stock Exchange

Part of the problem stems from a general disenchantment in emerging markets after several top players got burnt in countries such as Mexico, Poland and Turkey, but most of it depends on South Africa itself.

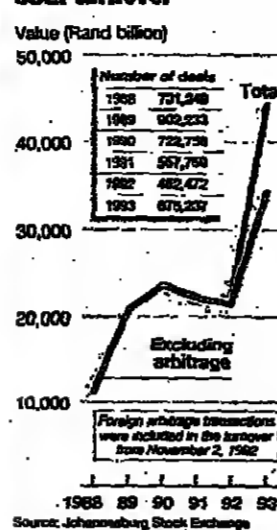
Despite a conservative budget and numerous statements by President Mandela and his economic team professing their adherence to free market discipline and macroeconomic stability, many investors seem to want to see how successfully the encouraging rhetoric is put into practice before taking the plunge. International investors

also cite some continuing structural flaws with the market. Mr Frank Savage, chairman of Alliance Capital management, one of the big southern Africa fund managers, singles out the presence of big conglomerates without a proper anti-trust legislative framework and the low tradability of shares, as among the most important problems. Although liquidity on the JSE improved to 7.14 per cent in 1993 from 4.76 per cent in 1992, it still remains far below other comparable markets.

Under pressure from foreigners and local banking groups

who have long railed against the Johannesburg Stock Exchange's restrictive operations, the exchange has recently announced a plan for restructuring to improve both efficiency and accountability. In addition to proposals related to affirmative action and the encouragement of black share ownership, the report recommends the revision of existing capital requirements and suggests that non-residents be allowed to act as brokers and that local firms can sell up to 30 per cent of their equity to institutional investors. Foreign firms have been

JSE turnover



Source: Johannesburg Stock Exchange

quick to respond, setting up partnerships with local brokers even before the recommendations have been endorsed and legislated. In the past year, Robert Fleming, Smith New Court and SG Warburg have all made domestic alliances in the South African market, and more are expected to follow.

To many, however, the proposals do not go far enough and critics are pressing for an end to the maintenance of single capacity trading, urging full corporate membership, and pushing for a move to screen trading from the current system of open outcry. But despite threats from disgruntled bankers to open a rival exchange, the Johannesburg Stock Exchange seems unlikely to budge further at the moment.

"If exchange control goes, then we would obviously have to reappraise the situation, but under current circumstances we feel that an evolutionary approach is best for the stock market," notes Mr Roy Anderson, stock exchange president.

Nonetheless, it is clear that the stock exchange, like other South African institutions, is undergoing important changes in the new environment and will continue to restructure further over the next few years. "One way or another I think we're going to have move to a fully deregulated market in the not-too-distant future," predicts one leading fund manager.

Tony Hawkins examines foreign investment

On the touch-line

More talk than action sums up South Africa's recent record of foreign investment. Most of the action has come in the past 18 months with a surge of portfolio investment and a large number of franchise and other non-equity deals.

A recent independent survey concludes: "Most companies are adopting a wait-and-see attitude" avoiding manufacturing and keeping their investments relatively small.

Many foreign companies have established a low-profile presence in the country in anticipation of an improved business climate from 1995 onwards.

The main action has been on the Johannesburg Stock Exchange. In the 18 months to March 1994, net inward investment on the JSE totalled R8.9bn, almost two-thirds in gilts and the balance in equities. This compares with substantial net foreign selling, especially of equities in the 1990-1992 period.

The same survey, which warns that it may not have tracked down all post-1990 foreign investment, lists 17 first-time new investors, including Vodafone of the UK and Alcatel of France in telecommunications, Daewoo of South Korea in household goods, Mr Tony O'Reilly's Independent Newspapers of Ireland in publishing and Digital Equipment of the US in computers.

Another seven are listed as returning companies - those that divested in the 1980s for political reasons. This list includes leading players such as IBM, Procter & Gamble and AB Electrolux of Sweden.

Another important participant who stayed behind, BMW, has brought in R100m in new capital to expand its Rosslyn vehicle-assembly plant.

There has been a good deal more activity in the field of indirect investment - distribution, franchise and licensing

deals. This list is dominated by the returnees - Apple, Honeywell and Novell in computers; Volvo and Peugeot in cars, and Morgan Stanley, Citibank and Warburgs in banking. Significantly, the largest single category, of some 38 companies, is made up of those intending to invest or reinvest. Here, too, the list reads like a Who's Who of global business: Ford, Motorola, Heinz, Philip Morris, Wang, AT&T, Ericsson, NEC, Coca-Cola and Pepsi.

The conventional wisdom is

Almost all of these are on the new government's agenda - the one exception being the probability of some form of capital transfer tax. But it will take years to translate an agenda into action.

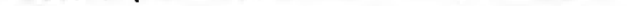
While the foreigners sit on the touch-line, domestic investment has started to recover. In March, Nedbank's Economic Unit, relying on public announcements, estimated new and continuing capital projects worth almost R100bn (\$27bn at present exchange rates), over the next five years. This estimate includes an adjustment of 10 per cent a year for inflation. Community and social projects (R45bn) make up the largest single chunk, followed by energy and water projects (R21bn) and manufacturing (R13 bn).

In the past, South Africa's investment record has fallen short on two counts. Even when it was investing more than comparable middle-income economies such as Brazil, Chile and Mexico - averaging 26 per cent of gross domestic product in the early 1970s - output and employment growth did not respond proportionately, because of growing capital intensity.

In the 1980s and 1990s, the problem was less the efficiency of investment than the steep decline in volume. By last year investment was down to 15.2 per cent of GDP, touching bottom in mid-year, since when there has been some recovery.

To grow at 5 per cent a year, the economy needs to invest more than 25 per cent annually - implying a shift of more than 7 per cent of GDP from consumption to savings. Part of this shift can be funded from offshore, with foreign capital, but achieving the domestic transfer of resources while simultaneously satisfying expectations will be a formidable task.

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Exporters are finding new markets open for trade, writes Mark Suzman

Generous Gatt 'window'

South African exporters are a little overwhelmed by their new-found international respectability. After years of developing expertise in such arcane skills as transshipping and re-labelling to try and counteract sanctions imposed as a result of apartheid, companies find that many countries are now rolling out the red carpet, and new markets from Asia to eastern Europe to Latin America - long out of bounds - are now open for trade.

As part of this new order, the South African government is starting to formalise its trading relationships. At the top of the list comes re-negotiation to the General Agreement on Tariffs and Trade. South Africa's formal submission to the Uruguay Round was accepted last year and a fundamental restructuring of its tariff structure will shortly get under way to bring the country more in line with international norms. The adjustments required by Gatt will involve pain for some highly protected industries

but, by securing classification as an "economy in transition", South Africa has managed to get a generous eight-year window for leading employment-oriented industries, such as textiles and motor vehicles, to adjust to the new arrangement. The deal also allows some leeway in the reorganisation of South Africa's contentious, and widely abused, General Export Incentive Scheme.

Meanwhile, new trade agreements are giving further impetus to trade growth. President Clinton gave South Africa GSP status in May, allowing preferential access to the US market for a wide range of goods, and the European Union has announced its intention to do the same by the end of the year. A more formal, separate trade treaty with the European Union is under discussion, as is the possibility of some kind of associate member status with the Lomé aid group.

Also on the agenda are a set of new regional trade arrangements. At the World Economic

Forum meeting last month, President Mandela and other southern African leaders signalled their intention to work towards a regional free trade agreement. As a first step towards this goal, in August South Africa will join the South African Development Community, a grouping of 10 southern African states originally formed to try and reduce dependence on South Africa.

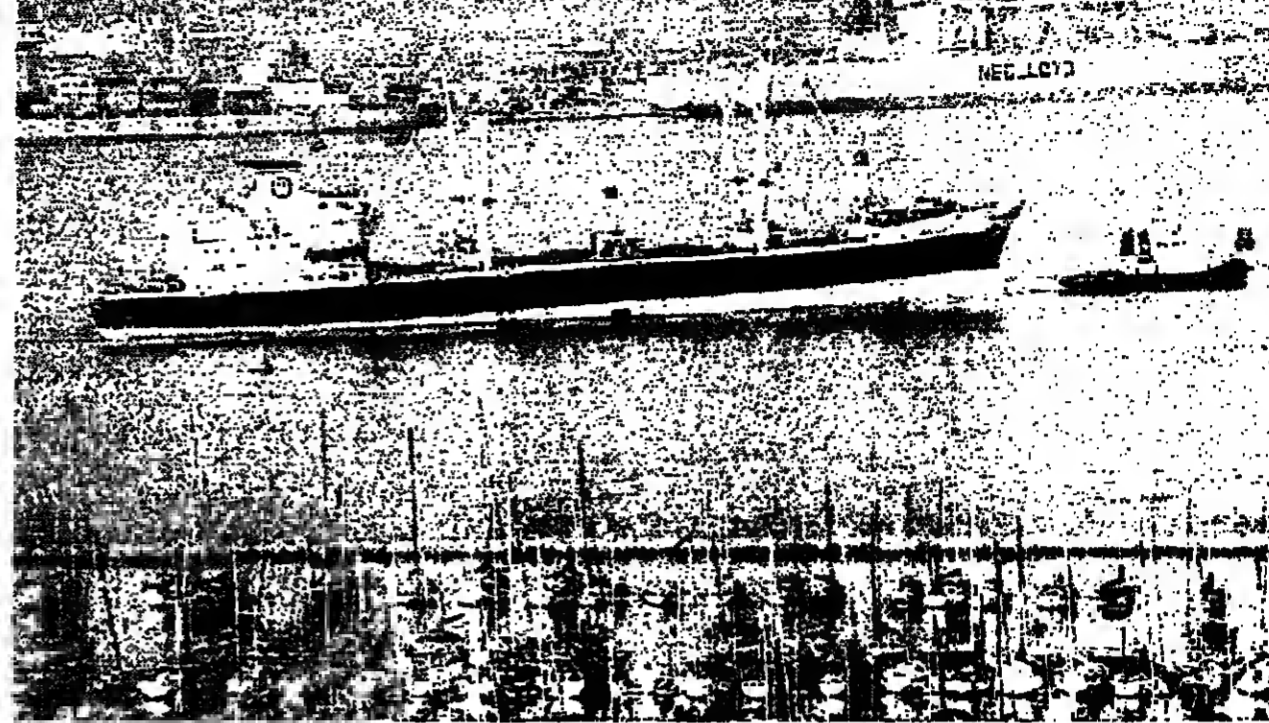
In the shorter term, Mr Trevor Manuel, trade and industry minister, has already signalled his intention to restructure the South African Customs Union, which South Africa shares with Namibia, Botswana, Lesotho and Swaziland and in which it currently pays out some R5.6bn of a customs and excise revenue pool of R16.3bn to its partners. It is also seeking to renew a bilateral trading arrangement with Zimbabwe.

Reflecting all this activity, exports have been soaring, and in 1993 totalled R78.3bn as the country ran a current account surplus of R5.9bn - although

this year's surplus is likely to be lower due to a higher import bill. But despite this success, the majority of exports are still primary products and while the proportion of manufactured goods has been increasing there is still a lot of room for improvement.

A survey of exporters by the South African Foreign Trade Organisation estimates that South Africa's manufacturing industry is at a 15 per cent cost disadvantage to Organisation for Economic Co-operation and Development countries, with its only comparative advantage in electricity. In addition, the report notes that after years of focus on the domestic market, local manufacturers have a "tendency to blame external factors" for failures, and many to its partners. It is also seeking to renew a bilateral trading arrangement with Zimbabwe.

"South African manufacturers still lack an export culture," acknowledges one senior trade official. "Until that changes, growth will be disappointing."



Durban: exports have been soaring, and in 1993 totalled R78.3bn as the country ran a current account surplus of R5.9bn

FOREIGN POLICY

Missions abroad have doubled



Foreign minister Alfred Nzo years of loyal service to the ANC

While these initiatives - real, imagined or exaggerated - take place, one arm of foreign policy seems to be operating with its past efficiency: the state-owned arms manufacturer, Armscor. With sanctions lifted, and its activities given the endorsement of Mr Joe Modise, defence minister, officials are now lifting at least a corner of the veil of secrecy. The defence industry provides 70,000 jobs and foreign exchange, say government officials, who add defensively: "If we didn't sell weapons, someone else would."

To be fair to Mr Mandela, he and his senior advisers have tried to play down expectations. On the one hand, Mr Mandela's integrity and moral authority makes him the acceptable voice of Africa on behalf of its many causes. At the same time, he makes clear that he has no easy answers to offer.

Advisers also point out that an effective diplomatic role is not made easier by the fact that the Ministry of Foreign Affairs is in the throes of reorganisation.

South African missions abroad have doubled since the transition to respectability

Michael Holman on foreign aid

Net benefit may prove marginal



Sam: aid alone cannot deliver the economic growth which is needed

R1,300m of project-linked finance over five years.

Past experience in Africa has shown that aid has mixed results and even allowing for South Africa's considerable pool of skills, handling resources on this scale will not be easy. The amount on offer, however, may not be as much as it seems. As is so often the case, assessing what may be termed the "real money" - that is assistance that is readily available and which can be rapidly disbursed - is not straightforward.

Although trade cover and investment guarantees can be put to good use, including them in the category of "aid" can give a misleading impression of what is available for conventional aid projects - health, housing, education, and so on.

Development packages almost invariably include aid tied to purchases from the donor country, which can prove expensive. A recent

study by a British development charity calculated that the resulting lack of competition can add anything from 10 to 15 per cent to the price of the items ordered from the donor country.

Another way of boosting bilateral aid figures in press releases is to include the contributions made by western governments to multilateral lending institutions, United Nations agencies, or money that would be channelled through European Union aid schemes.

A further device used by some donors is to include estimates of the benefits for South African exporters from introducing favourable tariff changes made in the wake of President Mandela's inauguration.

Given the competition between donors as to who will appear the most generous - which in turn may influence the South African government when it comes to allocating contracts for state-backed or funded projects - the donors themselves are often reluctant to make clear the precise benefits and terms of their offers.

In short, the arithmetic of aid is complex and South Africa, unused to being a recipient, may sometimes be too inclined to take promises at face value. Significantly, the World Bank, potentially South Africa's largest multilateral donor, is reluctant to put a figure to planned lending, although some officials have suggested a figure of about \$1bn a year in the initial phase.

Mr Isaac Sam, the Bank's resident representative in South Africa, says that foreign aid is "rather crucial" in South Africa's development. What is more, fund raising "has to be done fairly rapidly" in order to take advantage of the goodwill South Africa presently enjoys.

But Mr Sam cautions that aid alone cannot deliver the economic growth that the country needs. While the Bank plans to provide substantial aid, foreign and domestic investment are the keys to post-apartheid growth: "The real resources for South Africa are in the international capital market, not donors", says Mr Sam.

FOREIGN BORROWING

Credit rating sought

One of the more dramatic signals of the normalisation of South Africa's international economic relations has been the country's decision to seek an international credit rating.

After an intense competition among international merchant banks for the right to represent the country, the new government in May appointed Goldman Sachs as its agent to secure a grading from the leading agencies, who are expected to announce their assessment later this year.

Although South Africa has long borrowed money on European markets without a rating, it wants access to the American market, hence the new move.

Following the successful agreement with international banks on a repayment schedule for outstanding debt that had been caught in the

1986 standstill, and given its new-found political stability, the country feels the time is ripe to make formal entry into global capital markets.

Depending on the success of the present initiative, a similar move into the Japanese market may follow early next year.

Although political and economic uncertainty has long forced South Africa to pay a fairly hefty premium on offshore borrowing, government authorities are confident of achieving an investment grade rating of at least BBB.

"I would actually prefer a lower rating that we can improve upon, rather than a higher one which might be downgraded," notes Mr Chris Stals, South African Reserve Bank governor.

Even with the rating,

however, initial borrowing is likely to be limited.

The new budget makes allowance for about \$500m, but Mr Derek Keys, finance minister, says that figure may well be increased, depending both on the final rating achieved and the comparative strength of international markets at the time of borrowing.

The outcome of the government's initiative will also have a bearing on South African companies seeking to raise money offshore.

Assurer Liberty Life recently announced plans for a \$360m-\$500m rights issue, and the Development Bank of South Africa are both likely to float issues some time later this year.

Mark Suzman

Michael Holman



Michael Holman, Chairman

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Fresh markets opening

The Umngazi River Bungalow Hotel nestles sleepily in its Indian Ocean cove, where rollers break on the crescent-shaped white beach, deserted but for a lone fisherman and two dogs, gambolling in the adjoining lagoon.

Anywhere else in the world it would be the retreat of the rich, a private playground in an unspoilt environment. It's within easy reach from Johannesburg - a 60-minute flight east to Umtata, and then an hour's drive through the green hills of what used to be the Transkei homeland.

On the cove's grassy slopes are scattered 42 bungalows. A tennis court and swimming pool are in easy reach, while alongside the jetty on the river which feeds the lagoon, a motorboat stands ready for fishing or bird-spotting expeditions.

The hotel is not a retreat for the well-off. Dinner, bed and breakfast costs £125 a night - just over £20 - but the resort has only a handful of guests. It is as if Umngazi is still cocooned and isolated from the outside world by the country's apartheid past.

In the grim period after the mid-1980s, when Mr P.W. Botha, prime minister, defied the world and angry black teenagers took to the streets, Umngazi and hundreds of other resorts suffered the consequences. South Africa seemed to have put up the shutters against political reform, and the outside world shunned it: barely 250,000 tourists came to the country in 1988. But with the political transition and the inauguration of a stable government of national unity, Umngazi awaits discovery by visitors to the new South Africa.

Many of those travellers who already knew what this spectacular country has to offer are looking back with something akin to guilty nostalgia to a time when a berth in the luxurious Blue Train could be obtained at short notice, or a room at the Mount Nelson hotel in Cape Town with a view of Table Mountain - provided it wasn't the school holidays.

Those days are well passed, for a vigorous promotion campaign is getting under way. "Explore South Africa 95

Year" will be its theme, exploiting events such as the World Rugby Cup, the Comrades Marathon in Natal, the Million Dollar Golf Classic at Sun City and the Grahamstown festival.

"The aim is to achieve R9.5bn in foreign exchange earnings by 1996, based on 1m overseas visitor arrivals and 3.7m arrivals from Africa", says the South African Tourism Board's marketing plan.

It may seem an ambitious target, but when the world discovers what South Africa has to offer it will beat a path to beaches, game parks, mountains and lakes served by an excellent transport and communications infrastructure, and offering lodges and hotels that range from budget class to the luxurious.

Since the lifting of sanctions, direct air links with Australia and the US have been re-established, existing airlines have increased their services, and more than 20 new airlines are serving South Africa.

Tourist sector officials acknowledge that coping with a million holidaymakers a

year will strain the country's existing hotel capacity. But the sector is already preparing for a boom that will encourage hotels to upgrade their facilities and, above all, create jobs.

And while the 1m target is four times the annual number of holidaymakers who came during the political troubles of the mid-1980s, Satour points to last year's figures as evidence that it is within reach.

In 1993, the country earned about R850m from 618,000 overseas tourists - 18.5 per cent up on 1992 - making the sector the fourth-largest foreign exchange earner after manufacturing, gold and mining, and employing approximately 430,000 workers.

Notwithstanding this increase, the potential has barely been tapped, say Satour officials. South Africa has less than a 1 per cent share of the international market and tourism accounts for only 2 per cent of South Africa's gross national product, compared to the world average of 6.1 per cent.

There is scope for growth even in traditional strongholds. The UK is by far South

Africa's largest overseas market, accounting for about 23 per cent of visitors - excluding those from Africa - and Germany is the second-largest source.

But thanks to the new political environment and the number of new airlines serving Johannesburg, Satour can now exploit lucrative markets hitherto out of reach, such as India and Japan, and Scandinavia.

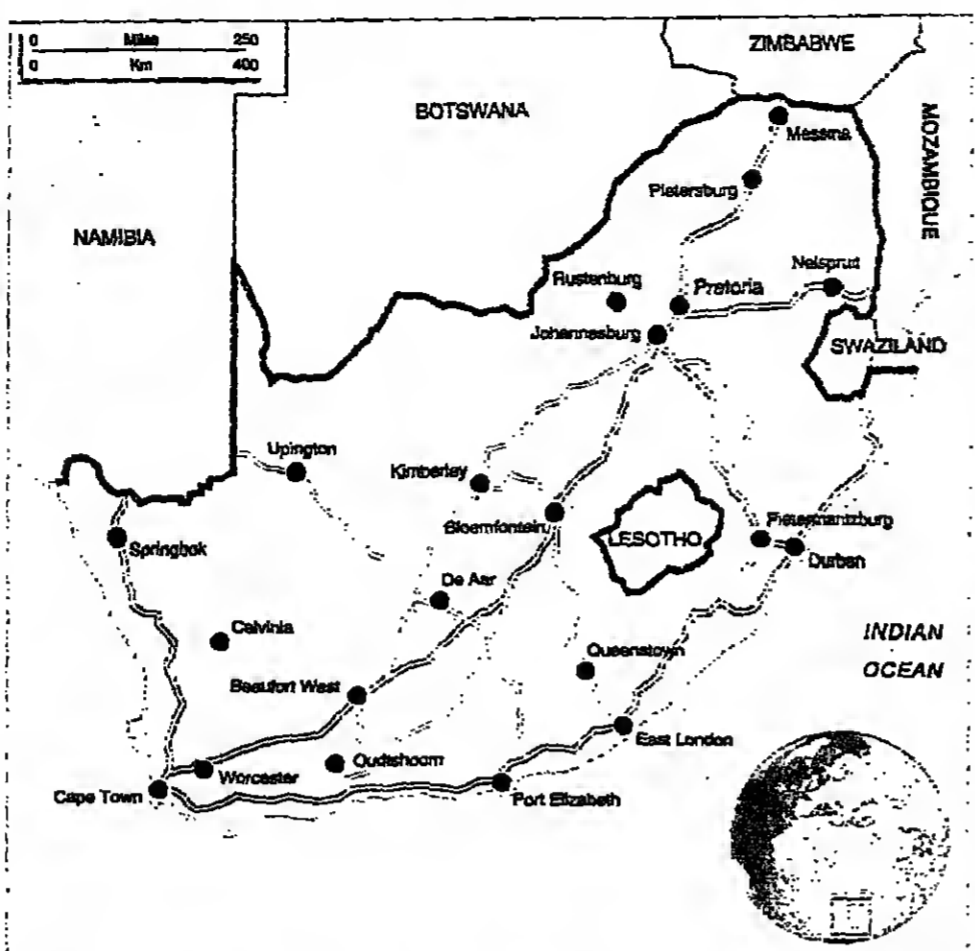
But it is Africa itself that is expected to provide the most dramatic results, from a mere 200,000 arrivals in 1991 to a targeted 3.7m in 1996.

Good news for the South African economy, but not happy reading for those who now have to share the country's scenic beauty with millions of newcomers.

So don't delay: visit South Africa while the hotels are relatively cheap and underbooked, the beaches are not crowded, tourists are not fleeced, and Umngazi River Bungalows are not taken over by the package tour business.

Umngazi River Bungalows, near Port St Johns (0471) 22370

Michael Holman



The new flag is here to stay, writes Mark Suzman

Symbol of liberation

The shock and disapproval when South Africa's new flag was first displayed was palpable and widespread.

"An exotic tea towel" and "Dayglo Y-fronts" were two of the more charitable comments about the patterned, six-colour emblem that was unveiled at the end of last year.

Such was the attachment of whites to their old "orange, white and blue", and most blacks to the African National Congress's black, green and gold colours, that the new banner seemed to be representative of continued tension in a still divided society rather than any common ground.

By the time the poll was over, however, the flag had been taken up by black and white alike as the symbol of liberation, a tangible demonstration of commitment to the new South Africa. After an emotional flag-raising ceremony on the first night of the elections, the country awoke to find the multi-banded banner flying proudly over city halls, police stations and government buildings throughout the land.

And when, at President Mandela's inauguration, flag-patterned T-shirts and banners littered the lawns of the union buildings and the air force thundered overhead trailing its colours, the apotheosis was complete. The new flag, originally regarded as a temporary compromise until a final one could be agreed upon, is undoubtedly here to stay.

It has been a curious phenomenon, both for the speed with which it happened and the genuine feelings which it appears to evoke.

A private agency produced the design and immediately came under fire

While the debate over the national anthem was solved by allowing both the stirring Afrikaans "Die Stem" and the hauntingly beautiful liberation anthem "Nkosi Sikelel' Afrika," no similar deal was possible over the flag issue. Following the failure of a nationwide competition to come up with an acceptable alternative, the



It is difficult to find anyone with an unkind word to say about the flag

matter was handed over to a private agency which produced the current design and immediately came under fire for its ridiculous result.

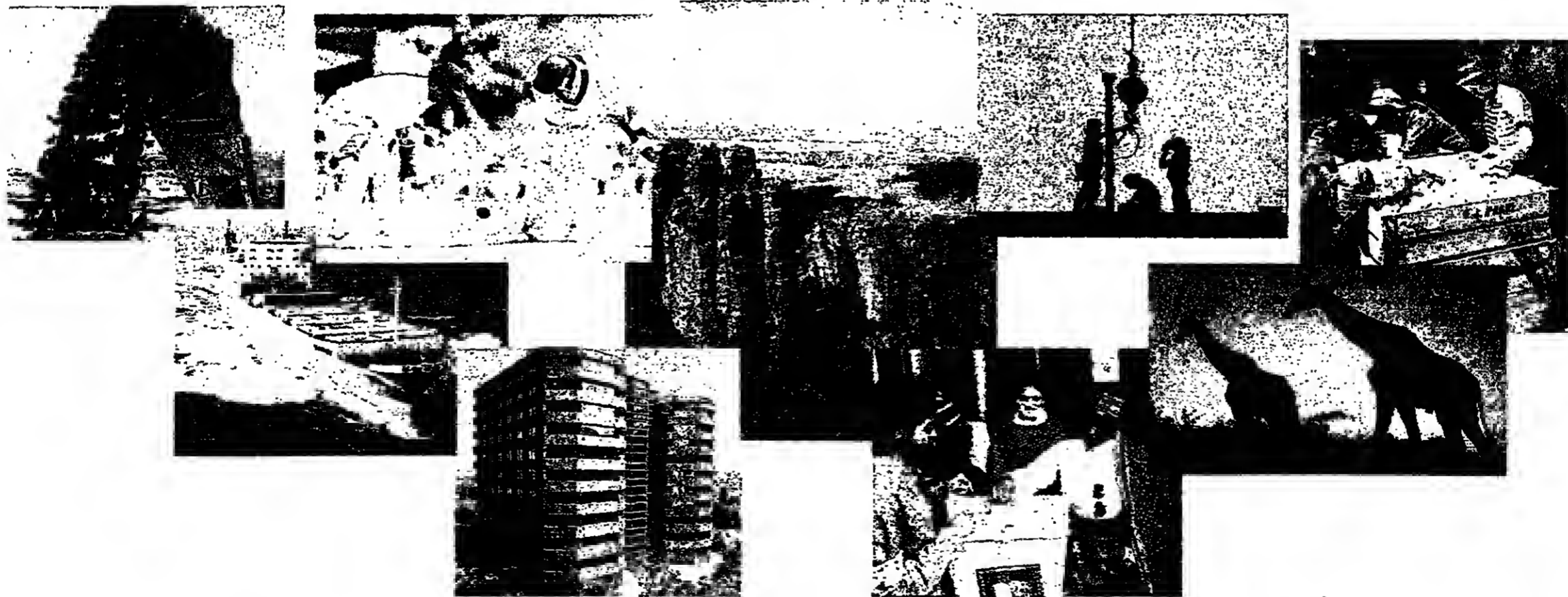
Now, however, it is difficult to find anyone with an unkind word to say about the emblem, and most people are rushing to buy their own. Flagpoles are sprouting in both white suburbia and black townships, flag bumper stickers are becoming ubiquitous, the emblem features on new airmail stamps and the Springbok rugby team has had it embroiled on their shorts.

Even the corporate sector, not in the past known for its displays of enthusiastic patriotism, have been striving to outdo each other in the size and number of flags at their disposal. One big company out-

side Johannesburg can be seen flying no fewer than 10 of the new banners above its office buildings and executives have been known to fight over little designer flag pins for their jacket lapels.

In short, the flag has become the symbol of the euphoria that has gripped the country for the past two months following the remarkably successful transition to democracy, and it seems destined to remain the touchstone of a new-found patriotism. As a result, in addition to the traditional goods and trinkets hawked on South Africa's streets, any shopper is now just as likely to be offered a selection of flag key-rings, coffee cups, table-cloths and, yes, even tea-towels. But they're tea-towels that can be used with pride.

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